# Organisation of procurement in the Northern Estonian Regional Hospital Foundation

**Audit report No. OSIII-2-6/05/77 of 15 July 2005**

## Summary

The Northern Estonian Regional Hospital Foundation (SA Põhja-Eesti Regionaalhaigla) was established by an order of the Government of the Republic in 2001 on the basis of the assets of seven health care institutions administered by the Ministry of Social Affairs. In 2003 the Keila Hospital was also merged with the Northern Estonian Regional Hospital.

The goal of the audit was to assess whether the organisation of procurement in the Northern Estonian Regional Hospital ensures sustainable and effective use of finances, promotion of competition and equal treatment of tenderers.

In 2004 the Northern Estonian Regional Hospital launched 84 public procurement procedures as a result of which 63 procurement contracts with a total value of 74 million Estonian kroons were made.

### Main observations

**The requirements of the Public Procurements Act have been violated.** Although in 2004 the Northern Estonian Regional Hospital established a procedure for purchase of goods and services and organisation of public procurement (the procedures, persons performing them and persons responsible), the procedure has not always been followed. The State Audit Office found during the audit that in 2004 there the Northern Estonian Regional Hospital has purchased a large amount of goods and services without public procurement, which is a considerable violation of the requirements of the Public Procurement Act.

**An insufficient overview of the needed goods makes drafting a public procurement plan more difficult.** According to the internal procedure for organisation of public procurement, the Northern Estonian Regional Hospital must devise a public procurement plan for the current year. The public procurement plan for 2004 had been devised, but a large number of the procurements investigated during the audit had not been indicated in the plan or they had not been organised pursuant to the plan. During the audit it was discovered that the procurement service of the Northern Estonian Regional Hospital did not have a full overview of the list of the main articles used by the Northern Estonian Regional Hospital, as a result of which the planning and preparation of public procurement was hampered. An overview of the exact structure of specific articles is obtained only during preparation of the public procurement.

**The tender documents contained shortcomings as well.** The State Audit Office found that the tender documents were not always clear and unambiguous. For example, the vague wording of the evaluation criteria in case of certain public procurement proceedings resulted in a situation where tenders were not comparable and the winner was not the one who made the best bid. Although tender documents must be signed by all members of the committee who participated in making them it was not always done so and therefore the State Audit Office is not certain whether the final documents were the same as the ones agreed by the members of the committee.

**The principles of selection of tenderers were not followed.** Although the Northern Estonian Regional Hospital has declared that it wants the suppliers to be reliable companies whose sales to the Northern Estonian Regional Hospital do not amount to more than a half of their sales, the Northern Estonian Regional Hospital has nevertheless acquired goods from companies whose sales consist almost entirely of the transactions made with the Northern Estonian Regional Hospital.

### Main suggestion to the Minister of Social Affairs

- Give the members of the Supervisory Board of the Northern Estonian Regional Hospital the following guidelines:
    - Take a position with respect to the omissions of public procurement by the Northern Estonian Regional Hospital.

- Decide the issue of the responsibility of the persons who have not been able to ensure organisation of public procurement in the events prescribed by law.
- Upon further purchase of goods and services, ensure organisation of public procurement.

**Main suggestion to the Management Board of the Northern Estonian Regional Hospital**

- Prepare an overview of the assortment of the required goods and services and devise long-term plans for acquisition of the equipment, fittings and services necessary for achievement of the strategic objectives of the Northern Estonian Regional Hospital.

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In a reply the **Ministry of Social Affairs** disliked the situation where the foundation has breached the Public Procurement Act or its own internal procedures in the context of organisation of public procurement. The Minister stated that he will recommend that the Supervisory Board of the Northern Estonian Regional Hospital carry out an internal audit in order to identify the persons related to the mistakes pointed out in the audit report, the operations performed by them upon organisation of public procurement and the conflict of these operations with the effective legislation and procedures.

The **Chairman of the Management Board of the Northern Estonian Regional Hospital** stated in his reply that the volume of public procurement in the hospital has increased year by year, whereby the procurement services of the hospital have drafted an initial plan for organisation of public procurement through 2003-2005. The Chairman of the Board of the Northern Estonian Regional Hospital did not submit a specific action plan with respect to the suggestions in his reply to the State Audit Office.

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